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Auditor of State

TO: UAN CLIENTS
FROM: UAN STAFF
DATE: MARCH 17, 2009
SUBJECT: COBRA PREMIUM ASSISTANCE PAYMENTS

If your entity is an employer with a group health plan that is subject to the Federal COBRA continuation coverage requirements and your entity receives the payments from former employees, you will be affected by a provision in The American Recovery and Reinvestment Act of 2009 (the Act). The Act allows for a 65 percent subsidy of COBRA premiums for certain assistance-eligible individuals for COBRA continuation health coverage. If your entity does not receive the COBRA payments (i.e. payments are made directly to your health care provider by the eligible former employees), you are not affected by this bulletin.

An assistance-eligible individual is any COBRA qualified beneficiary associated with a related covered employee, such as a dependent child of an employee, who is covered immediately prior to the qualifying event. The qualifying event for purpose of eligibility for the subsidy is involuntary termination of the covered employee's employment that occurs during the period beginning September 1, 2008 and ending December 31, 2009. The individual must also be eligible for COBRA coverage, or similar state coverage, during this period. Under the Act, an assistance-eligible individual, beginning as early as February 17, 2009, must pay only 35 percent of the COBRA payments. The employer subsidizes the remaining 65 percent of the premium. The employer recovers this subsidy by claiming the amount as a credit on the quarterly employer's federal tax return (941).

The employer should post the 65 percent payment to a 200 object for employee benefits.

For all questions regarding eligibility and notification *of former employees*, please contact:

1. Your Human Resource representative
2. Your 3rd party health care administrator

There are three options for recovering the subsidy amount through your 941:

1. Claim credit for the subsidy amount on the 941 at the end of the quarter and request a refund.
2. Claim credit for the subsidy amount on the 941 at the end of the quarter and apply that credit to the next quarter's return.
3. Reduce the current quarter's tax deposit payments by the subsidy amount.

How to handle each option on the UAN system is explained below.

Option 1 – Claim credit and receive refund

- A. Post all federal tax payments for the quarter in the UAN Payroll software.
- B. Verify that the total deposits for the quarter are correct in box 11 on the 941.
- C. Edit box 12a on the 941 to reflect the subsidy payments for the quarter.
- D. Edit box 12b on the 941 to reflect the number of individuals accounted for in box 12a.
- E. Box 15 on the 941 should reflect an overpayment amount equal to the subsidy payments for the quarter (If it does not, the report will require additional editing).
- F. Select ‘Send a refund’ in box 15 on the 941.
- G. When you receive the refund check, deposit the check at the bank and then reduce the payment made for the health insurance in the UAN Accounting software by posting a negative payment adjustment to the account(s) where the 65 percent payment was posted for the amount of the refund (Accounting → Transactions → Accounting Utilities → Payments/Charges → Adjust/Reallocate → Payments).

Option 2 – Claim credit and apply to the next quarter’s return

- A. Post all federal tax payments for the quarter in the UAN Payroll software.
- B. Verify that the total deposits for the quarter are correct in box 11 on the 941.
- C. Edit box 12a on the 941 to reflect the subsidy payments for the quarter.
- D. Edit box 12b on the 941 to reflect the number of individuals accounted for in box 12a.
- E. Box 15 on the 941 should reflect an overpayment amount equal to the subsidy payments for the quarter (If it does not, the report will require additional editing).
- F. Select ‘Apply to next return’ in box 15 on the 941.
- G. Reduce tax payments during the next quarter to recover the previous quarter’s subsidy amount.
 - a. Print the Unpaid Withholding Detail Report (Payroll → Reports → General Payroll Reports → Withholding → Unpaid → Withholding Detail). Select the Federal, Supplemental Federal, Medicare and Social Security withholdings and print the report to paper. This report will show the specific account codes for both the employees’ and employer’s shares. Set this aside to use when creating the Federal payment from the Accounting software.
 - b. Clear the withholdings from the Payroll software (Payroll → Transactions → Payroll Utilities → Adjust → Withholdings). Select Current Year at the top of the form, select the Month option at the top left, and then select the particular month to clear. Select all Time Frequencies and all Wage Records. Next, select the Federal, Supplemental Federal, Medicare and Social Security withholdings in the bottom left grid. The total amount of employees’ and employer’s shares at the bottom right should match the Unpaid Withholding report you printed earlier. If the totals match your report, click on Process to clear the withholdings. If the totals do not match, verify that the selected dates and withholdings match the report selections.
 - c. Generate the Federal payment from the Accounting software (Accounting → Transactions → Payment/Charges). Choose a regular payment to print a check, or a charge if you will pay online. Use the Unpaid Withholding Detail report to enter the correct amounts per account code. Because you have a credit and need to reduce your total Federal payment by the amount of the credit, you will have to reduce the amount charged to one or more of the account codes accordingly.

- H. To properly reflect the health insurance expenditures for the correct account codes in the UAN system, reallocate the amount of the subsidy credit on the payment made for the health insurance to the account codes that you reduced (in step G part C above) by posting a payment reallocation (Accounting → Transactions → Accounting Utilities → Payments/Charges → Adjust/Reallocate → Payments).
- I. Edit the 941 for the quarter during which tax payments were reduced to apply the previous quarter's subsidy credit (overpayment).
 - a. Edit box 11 on the 941 to reflect the total tax deposits for this quarter (in the first box on the screen) and the previous quarter's subsidy payment that you recovered by reducing tax payments this quarter (in the second box on the screen).
 - b. If you have a new subsidy amount for the current quarter to apply as a credit to the next quarter's return, repeat the process above from step C.

Option 3 – Reduce current quarter's tax deposit payments

- A. Reduce tax payments during the quarter to recover the current quarter's subsidy amount.
 - a. Print the Unpaid Withholding Detail Report (Payroll → Reports → General Payroll Reports → Withholding → Unpaid → Withholding Detail). Select the Federal, Supplemental Federal, Medicare and Social Security withholdings and print the report to paper. This report will show the specific account codes for both the employees' and employer's shares. Set this aside to use when creating the Federal payment from the Accounting software.
 - b. Clear the withholdings from the Payroll software (Payroll → Transactions → Payroll Utilities → Adjust → Withholdings). Select Current Year at the top of the form, select the Month option at the top left, and then select the particular month to clear. Select all Time Frequencies and all Wage Records. Next, select the Federal, Supplemental Federal, Medicare and Social Security withholdings in the bottom left grid. The total amount of employees' and employer's shares at the bottom right should match the Unpaid Withholding report you printed earlier. If the totals match your report, click on Process to clear the withholdings. If the totals do not match, verify that the selected dates and withholdings match the report selections.
 - c. Generate the Federal payment from the Accounting software (Accounting → Transactions → Payment/Charges). Choose a regular payment to print a check, or a charge if you will pay online. Use the Unpaid Withholding Detail report to enter the correct amounts per account code. Because you have a credit and need to reduce your total Federal payment by the amount of the credit, you will have to reduce the amount charged to one or more of the account codes accordingly.
- B. To properly reflect the health insurance expenditures for the correct account codes in the UAN system, reallocate the amount of the subsidy credit on the payment made for the health insurance to the account codes that you reduced (in step A part C above) by posting a payment reallocation (Accounting → Transactions → Accounting Utilities → Payments/Charges → Adjust/Reallocate → Payments).
- C. Edit box 11 on the 941 to reflect the total deposits for the quarter.
- D. Edit box 12a on the 941 to reflect the subsidy payments for the quarter.
- E. Edit box 12b on the 941 to reflect the number of individuals accounted for in box 12a.
- F. Boxes 14 and 15 on the 941 should be zero (If boxes 14 and 15 are not zero, the report will require additional editing).

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